BEFORE THE ARIZONA CORPORATION COMMISSION

JIM IRVIN
COMMISSIONER-CHAIRMAN
TONY WEST
COMMISSIONER
CARL J. KUNASEK
COMMISSIONER

IN THE MATTER OF COMPETITION IN THE PROVISION OF ELECTRIC SERVICES THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. RE-0000C-94-0165 THE LAND AND WATER FUND'S PROPOSED RULE CHANGES

In a Procedural Conference on January 22, 1999, the Chief Hearing Officer of the Arizona Corporation Commission requested that interested parties file their proposed changes to the Commission's Competition Rules, A.A.C. R14-2-1601 *et seq.*, by January 29, 1999. The Land and Water Fund (LAW Fund) hereby provides its proposals regarding changes to the rules. In brief, the LAW Fund urges that the Commission retain the solar portfolio standard. In addition, the LAW Fund suggests that the phase-in to retail competition be shortened or eliminated and that the entire market be opened to competition as soon as feasible.

Retention of the Solar Portfolio Standard

The LAW Fund proposes that the solar portfolio standard (R14-2-1609) be retained for the reasons listed below.

- There is a demand for solar energy sustained in part by the environmental benefits of solar power. Utility pilot green power programs in Traverse City, Detroit, Arizona, Colorado, Sacramento, and other places have demonstrated the existence of a demand for solar energy.

- A fraction of consumers (about one to three percent of residential consumers and up to about one percent of commercial kWh consumption) is willing to pay a premium sufficient to cover the costs of solar energy, typically provided as a blend of solar and conventional energy. For example, a blend might consist of 10 percent solar energy and 90 percent conventional energy. The pilot programs indicated above demonstrate the willingness of consumers to pay a premium for a blend of solar and conventional energy.

- There are also cost-effective off-grid applications for solar energy including remote lighting, remote water pumping, remote homes and ranches, remote

traffic control signals, and urban lighting and signals where line extensions, such as underground extensions, are prohibitively expensive. In addition, solar energy can be used to augment the capacity of transmission and distribution facilities.

- As prices for solar energy fall, demand will increase.

- However, a competitive market in power supply is **not** likely to meet the demand for solar energy. Initial experience in California and elsewhere suggests that the market will be dominated by large suppliers and these suppliers will concentrate primarily on furnishing larger commercial and industrial consumers with conventional energy. Small niche market suppliers of solar energy are likely to be unsuccessful in the new competitive market due to the financial difficulty of surviving in a high volume - low margin - high transaction cost business. The market will only sustain large suppliers and so it is these suppliers who must serve the demand for solar energy.

- Some incumbent utilities, which will serve standard offer customers, have so far pursued only small pilot programs in solar energy and have not sought to serve the full demand for solar energy. Other incumbent utilities have no solar energy programs beyond perhaps a few demonstration installations.

- A solar portfolio standard fosters a supply of solar energy provided by all market suppliers. Therefore, a solar portfolio standard will enable consumers demanding solar energy to purchase that solar energy. In the absence of a solar portfolio standard, the demand for solar energy is likely to go nearly completely unserved, despite consumers' willingness to pay for solar energy.

- Small solar energy suppliers may engage in partnership arrangements with large conventional energy suppliers to provide the solar energy required by a solar portfolio standard. The solar partner may also be responsible for marketing solar energy and the larger partner could be responsible for obtaining and delivering conventional energy in a solar blend, for example.

- Much or all of the solar energy generated under a carefully crafted solar portfolio standard can be sold to consumers willing to pay for the costs of that solar energy. Thus, those costs will not be subsidized by consumers who do not want solar energy.

- A solar portfolio standard will advance a base of experience in generating solar power that will be useful if conventional fuels become significantly more expensive.

- Increasing sales of solar energy will enable manufacturers of solar generation equipment to take advantage of economies of scale in manufacturing,

resulting in lower costs, lower prices, and greater consumption of solar energy.

- A solar portfolio standard will provide greater certainty to solar energy suppliers about the market they operate in.

- Because of the creation of a large regional demand, a solar portfolio standard will make Arizona more attractive to manufacturers of photovoltaic cells and modules, dish-Stirling equipment, other solar thermal equipment, and balance of system components, thereby adding to Arizona's economic base.

Therefore, the LAW Fund urges the Commission to retain the solar portfolio standard, including credits and tradable energy credits.

Finally, reports in the media suggest that the Commission may have some concerns with the portfolio standard. If the Commission does have concerns with the solar portfolio standard as it currently exists in the competition rules, the LAW Fund urges the Commission to describe these concerns and provide the parties with an opportunity to modify the portfolio standard to address them. This type of process would enable the parties to work together to resolve the Commission's concerns.

Eliminating or Shortening the Phase-In

R14-2-1604. ~~Competitive Phases~~ Schedule

A. Each Affected Utility shall make available its entire service area to Competitive Services no later than October 1, 1999.

~~A. Each Affected Utility shall make available at least 20% of its 1995 system retail peak demand for competitive generation supply on a first-come, first-served basis as further described in this rule. First-come, first-served for the purpose of this rule, shall be determined for non-residential customers by the date and time of an Electric Service Provider's filing of a Direct Access Service Request with the Affected Utility or Utility Distribution Company. The effective date of the Direct Access Service Request must be within 180 days of the filing date of the Direct Access Service Request. Residential customer selection will be determined under approved residential phase-in programs as specified in R14-2-1604.B.4.~~

~~1. All Affected Utility customers with non-coincident peak demand load of 1 MW or greater will be eligible for competitive electric services no later than January 1, 1999. Customers meeting this requirement shall be eligible for competitive services until at least 20% of the Affected Utility's 1995 system peak demand is served by competition.~~

~~2. During 1999 and 2000, an Affected Utility's customers with single premise non-coincident peak load demands of 40 kW or greater aggregated into a combined load of 1 MW or greater within the Affected Utility's service territory will be eligible for competitive electric services. Self-aggregation is also allowed pursuant to the minimum and combined load demands set forth in this rule. If peak load data are not available, the 40 kW criterion shall be determined to be met if the customer's usage exceeded 16,500 kWh in any month within the last 12 consecutive months. From January 1, 1999,~~

~~through December 31, 2000, aggregation of new competitive customers will be allowed until such time as at least 20% of the Affected Utility's 1995 system peak demand is served by competitors. At that point all additional aggregated customers must wait until January 1, 2001 to obtain competitive service.~~

~~3. Affected Utilities shall notify customers eligible under this subsection of the terms of the subsection no later than October 31, 1998.~~

~~B. As part of the minimum 20% of 1995 system peak demand set forth in R14-2-1604(A), each Affected Utility shall reserve a residential phase-in program with the following components:~~

~~1. A minimum of 1¼% of residential customers as of January 1, 1999 will have access to competitive electric services on January 1, 1999. The number of customers eligible for the residential phase-in program shall increase by an additional 1¼ % every quarter until January 1, 2001.~~

~~2. Access to the residential phase-in program will be on a first-come, first-served basis. The Affected Utility shall create and maintain a waiting list to manage the residential phase-in program.~~

B. ~~3.~~ Residential customers participating in the ~~residential phase-in program~~ competitive market shall be permitted to use load profiling to satisfy the requirements for hourly consumption data; however, they may choose other metering options offered by their Electric Service Provider consistent with the Commission's rules on metering.

~~4. Each Affected Utility shall file a residential phase-in program proposal to the Commission for approval by Director, Utilities Division by September 15, 1998. Interested parties will have until September 29, 1998, to comment on any proposal. At a minimum, the residential phase-in program proposal will include specifics concerning the Affected Utility's proposed:~~

~~a. Process for customer notification of residential phase-in program;~~

~~b. Selection and tracking mechanism for customers based on first-come, first-served method;~~

~~a. Customer notification process and other education and information services to be offered;~~

~~d. Load Profiling methodology and actual load profiles, if available; and~~

~~a.Method for calculation of reserved load.~~

~~5. Each Affected Utility shall file quarterly residential phase-in program reports within 45 days of the end of each quarter. The 1st such report shall be due within 45 days of the quarter ending March 31, 1999. The final report due under this rule shall be due within 45 days of the quarter ending December 31, 2002. As a minimum, these quarterly reports shall include:~~

~~a. The number of customers and the load currently enrolled in residential phase-in program by energy service provider;~~

~~b. The number of customers currently on the waiting list;~~

~~c. A description and examples of all customer education programs and other information services including the goals of the education program and a discussion of the effectiveness of the programs; and~~

~~d. An overview of comments and survey results from participating residential customers.~~

C. Each Affected Utility shall file a report by September 15, 1998, detailing possible mechanisms to provide benefits, such as rate reductions of 3% - 5%, to all Standard Offer customers.

~~D. All customers shall be eligible to obtain competitive electric services no later than January 1, 2001, at which time all customers shall be permitted to aggregate, including aggregation across service territories.~~

~~E. Subject to the minimum 20% limitation described in subsection (A) of this Section, all customers who produce or purchase at least 10% of their annual electricity consumption from photovoltaic or solar thermal electric resources installed in Arizona after January 1, 1997 shall be selected for participation in the competitive market if those customers apply for participation in the competitive market.~~

~~F.~~D. Retail consumers served under existing contracts are eligible to participate in the competitive market prior to expiration of the existing contract only if the Affected Utility and the consumer agree that the retail consumer may participate in the competitive market.

~~G.~~E. A Load-Serving Entity may~~, beginning January 1, 1999,~~ engage in buy-throughs with individual or aggregated consumers. Any buy-through contract shall ensure that the consumer pays all non-bypassable charges that would otherwise apply. Any contract for a buy-through effective prior to ~~January 1, 1999~~ October 1, 1999 must be approved by the Commission.

~~H.~~F. Schedule Modifications for Cooperatives

1. An electric cooperative may request that the Commission modify the schedule described in R14-2-1604(A) ~~through R14-2-1604(E)~~ so as to preserve the tax exempt status of the cooperative or to allow time to modify contractual arrangements pertaining to delivery of power supplies and associated loans.
2. As part of the request, the cooperative shall propose methods to enhance consumer choice among generation resources.
3. The Commission shall consider whether the benefits of modifying the schedule exceed the costs of modifying the schedule.

Explanation for Eliminating the Phase-In

These proposed changes do away with the phase-in and substitute a "flash cut." The phase-in was originally intended to limit Affected Utilities' exposure to unforeseen problems with software, generation, transmission, accounting, record-keeping, etc., if a huge number of customers suddenly selected competitive power providers. Based on the experience in California, only a limited number of customers will likely initially participate in a fully competitive market, thereby obviating the need for the phase-in. As of December 31, 1999, direct access load (kWh) as a percent of UDC load in California was as follows:[1]

- residential 1.1%
- commercial under 20 kW 3.3%
- commercial 20 kW to 500 kW 12.8%

[1] California Public Utilities Commission web site, "Supplemental Direct Access Implementation Activities Report."

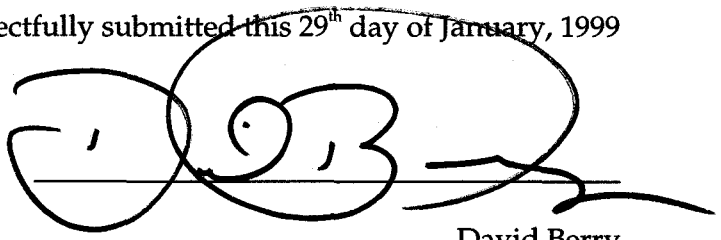
- industrial over 500 kW 27.4%
- agricultural 6.4%

A "flash-cut " has advantages over the phase-in:

- Complexity associated with implementing a phase-in will be eliminated.
- Consumers desiring a blend of solar and conventional energy will not be excluded from the competitive market by an arbitrary cut-off.
- Consumers in general will not have to worry about getting in line fast enough to participate in the first phase of the competitive market.
- Small commercial consumers will not be shut out of the market in the early years.
- Consumers with a mix of small and large loads will be able to obtain competitive power supplies for all their premises and not just for those sites which meet an arbitrary cut-off.

Therefore, the LAW Fund urges that the Commission adopt a "flash cut."

Respectfully submitted this 29th day of January, 1999



David Berry
Executive Consultant
Resource Management International, Inc.
302 North First Avenue
Phoenix, AZ 85003

on behalf of the Land and Water Fund

Original and ten copies of the foregoing filed January 29, 1999 with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Copies of the foregoing sent via U.S. Mail to:

Current Service List for Docket No. RE-0000C-94-0165

By: Diane Harlow
Diane Harlow